RECORD AND BRIEFS

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In the Supreme Court of the United States

IMPRESSION PRODUCTS, INC., PETITIONER

v.

LEXMARK INTERNATIONAL, INC.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

BRIEF FOR THE UNITED STATES AS AMICUS CURIAE

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QUESTIONS PRESENTED

1. Whether a U.S. patent owner may invoke patent law to enforce restrictions on the use or resale of a patented article after the first authorized sale of the article in the United States.

2. Whether and under what circumstances a U.S. patent owner may authorize the sale of a patented article in a foreign country, either under a foreign patent or otherwise in accordance with foreign law, while reserving its exclusive rights under U.S. patent law.

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INTEREST OF THE UNITED STATES

This brief is filed in response to the Court's order inviting the Solicitor General to express the views of the United States. In the view of the United States, the petition for a writ of certiorari should be granted.

STATEMENT

1. A U.S. patent confers on the patentee "the right to exclude others from making, using, offering for sale, or selling the invention throughout the United States or importing the invention into the United States." 35 U.S.C. 154(a)(1). Whoever does any of those acts "without authority" from the patentee infringes the patent. 35 U.S.C. 271(a). Patent infringement is a strict-liability tort; neither scienter nor contractual privity is necessary for liability. See *Commil USA, LLC* v. *Cisco Systems, Inc.*, 135 S. Ct. 1920, 1926 (2015).

The principle of patent "exhaustion," however, "delimit[s] the scope of the patent grant." *Aro Mfg. Co.* v. *Convertible Top Replacement Co.*, 377 U.S. 476, 497 (1964) (plurality opinion). Under the exhaustion doctrine, also known as the "first sale" doctrine, "the initial authorized sale of a patented item terminates all patent rights to that item." *Quanta Computer, Inc.* v. *LG Elecs., Inc.*, 553 U.S. 617, 625 (2008). A patentee who authorizes a sale of a patented article therefore cannot invoke patent law to enforce ongoing restrictions on the use or resale of that item. See *Motion Picture Patents Co.* v. *Universal Film Mfg. Co.*, 243 U.S. 502, 514, 516 (1917). Instead, the enforceability of downstream restrictions after an authorized sale arises only "as a question of contract, and not as one under the inherent meaning and effect of the patent laws." *Keeler* v. *Standard Folding Bed Co.*, 157 U.S. 659, 666 (1895).

Patent rights are further circumscribed by the territorial boundaries of the United States. The statutory provisions that delineate the patent grant and the conduct that constitutes infringement incorporate that geographic limitation. See 35 U.S.C. 154(a)(1) (patentee enjoys exclusive rights "throughout the United States"); 35 U.S.C. 271(a) (defining infringement to include specified conduct "within the United States"). No authority under a U.S. patent is required to make, use, or sell the patented invention outside the United States, and a U.S. patentee who desires to prevent such acts must "obtain[] and enforc[e] foreign patents." *Microsoft Corp.* v. *AT&T Corp.*, 550 U.S. 437, 441, 456 (2007).

2. a. Respondent owns several U.S. patents related to printer toner cartridges, which respondent sells

both in the United States and abroad. Pet. App. 9a-10a. As relevant here, all of the cartridges that respondent sold in the United States, and some that it sold abroad, were subject to a "single-use/no-resale restriction," which prohibited buyers from reusing the cartridges after the toner ran out or transferring the cartridges to anyone but respondent. *Id.* at 10a. It is undisputed that the restriction is "an express and enforceable contractual agreement." *Id.* at 11a (citation and internal quotation marks omitted).

Petitioner acquired spent cartridges that respondent had initially sold both here and abroad and resold them in the United States after they had been replenished with ink. Pet App. 10a. Based on that conduct, respondent sued petitioner for direct and contributory patent infringement, alleging (i) a violation of the single-use/no-resale restriction on cartridges originally sold in the United States and (ii) unlawful importation of the cartridges originally sold abroad. *Id.* at 12a-13a.

b. The district court dismissed respondent's infringement claim involving cartridges originally sold in the United States, holding that the initial authorized sale of those cartridges exhausted respondent's patent rights in them. Pet. App. 140a-155a. The court acknowledged that, in *Mallinckrodt, Inc.* v. *Medipart, Inc.*, 976 F.2d 700 (1992), the Federal Circuit had permitted a patentee to invoke patent law to enforce a single-use restriction after an authorized sale. Pet. App. 146a-147a. The district court concluded, however, that *Mallinckrodt* was no longer good law. *Id.* at 142a-154a.

The district court refused to dismiss the infringement claim involving cartridges originally sold abroad.

Pet. App. 156a-169a. The court relied on the Federal Circuit's holding in *Jazz Photo Corp.* v. *International Trade Commission*, 264 F.3d 1094 (2001) (*Jazz Photo*), cert. denied, 536 U.S. 950 (2002), that a foreign sale authorized by the U.S. patentee does not exhaust U.S. patent rights. Pet. App. 158a.

After the district court's rulings, the parties stipulated to a final judgment in petitioner's favor as to cartridges respondent had sold within the United States, and in respondent's favor as to cartridges respondent had sold abroad. Pet. App. 17a-18a.

c. Both parties appealed, Pet. App. 18a, and the Federal Circuit sua sponte ordered the case heard en banc, *id.* at 136a-139a. The en banc court of appeals held that neither the domestic nor the foreign sales had exhausted respondent's patent rights in the cartridges. *Id.* at 1a-104a.

The Federal Circuit reaffirmed *Mallinckrodt*'s holding that a patentee may sell an article in the United States while retaining patent-law rights to enforce "clearly communicated, otherwise-lawful restriction[s] as to post-sale use or resale." Pet. App. 26a; see *id.* at 26a-63a. The court relied on this Court's exhaustion decisions, which it understood to permit enforcement of similar restrictions following authorized sales made by a licensee. *Id.* at 41a-49a. The Federal Circuit read this Court's decisions to hold that patent rights are exhausted only when initial sales are "unconditional," meaning unaccompanied by any restrictions, *id.* at 41a-43a, or when a purported restriction "exceed[s] the legitimate scope of patent rights," *id.* at 27a-28a (citing *Mallinckrodt*, 976 F.2d at 704); see *id.* at 44a-56a.

The Federal Circuit also reaffirmed *Jazz Photo*'s holding that foreign sales do not exhaust U.S. patent rights. Pet. App. 63a-103a. The court recognized that "an express or implied license might be found based on the circumstances" of a particular sale, *id.* at 67a, but held that a foreign sale does not conclusively or presumptively confer any authority under the U.S. patent to import, use, or resell that article within the United States, *id.* at 64a. The court rejected petitioner's contention that this Court's decision in *Kirtsaeng* v. *John Wiley & Sons, Inc.*, 133 S. Ct. 1351 (2013), which interpreted a statutory provision that governs copyright exhaustion, required a rule of automatic international patent exhaustion. Pet. App. 67a-75a.

Judge Dyk, joined by Judge Hughes, dissented. Pet. App. 105a-135a. The dissenting judges would have held that this Court's patent-exhaustion decisions foreclose using patent law to enforce post-sale restrictions following an authorized sale in the United States. *Id.* at 105a; see *id.* at 106a-125a. They would have further held that a foreign sale authorized by the U.S. patentee does not automatically exhaust U.S. patent rights, but should trigger exhaustion if those rights are not "explicitly reserve[d]" at the time of the foreign sale. *Id.* at 125a; see *id.* at 125a-135a.

DISCUSSION

The petition for a writ of certiorari should be granted. For more than 150 years, this Court has held that, once a particular patented article has been sold in the United States by the patentee or with his authorization, the patent laws do not constrain the subsequent use or resale of that article. The Federal Circuit's decision misreads those precedents and would substantially erode the exhaustion doctrine.

The first question presented thus merits this Court's review.

This Court should also review the second question presented, which involves international patent exhaustion. The Federal Circuit correctly rejected petitioner's contention that a foreign sale *necessarily* exhausts U.S. patent rights in the sold article if the U.S. patentee authorized the sale. The court erred, however, in reaffirming its holding in *Jazz Photo Corp.* v. *International Trade Commission*, 264 F.3d 1094 (2001) (*Jazz Photo*), cert. denied, 536 U.S. 950 (2002), that foreign sales *never* exhaust U.S. patent rights. Federal courts considering that issue before *Jazz Photo* coalesced around the rule that a U.S. patentee's authorization of a foreign sale exhausted its U.S. patent rights unless the patentee expressly reserved those rights. This Court should grant review and adopt that rule, which appropriately reconciles the important purposes of the exhaustion doctrine with the quintessentially territorial nature of patent law.

I. THIS COURT SHOULD REVIEW THE FEDERAL CIRCUIT'S HOLDING THAT POST-SALE RESTRICTIONS ON THE USE OR RESALE OF PATENTED ARTICLES ARE ENFORCEABLE UNDER PATENT LAW

The Federal Circuit held that post-sale restrictions on the use or resale of patented articles after their initial sale in the United States may be enforced against downstream purchasers through patent-infringement suits. Pet. App. 8a, 23a-63a. That holding conflicts with this Court's decisions, and its practical effect on commerce in patented goods is likely to be substantial. This Court's review is warranted.

A. 1. Since 1853, this Court has recognized that exhaustion principles limit the exclusive rights con-

ferred by U.S. patent law. See *Bloomer* v. *McQuewan*, 55 U.S. (14 How.) 539, 549-550 (1853). Once a patentee authorizes a sale of a patented article, that article "passes outside" the patent's coverage "and is no longer under the protection of the act of Congress." *Id.* at 549. The authorized sale thus "exhausts the monopoly in that article and the patentee may not thereafter, by virtue of his patent, control the use or disposition of the article." *United States* v. *Univis Lens Co.*, 316 U.S. 241, 250 (1942) (*Univis*); see *Bowman* v. *Monsanto Co.*, 133 S. Ct. 1761, 1764 (2013); *Quanta Computer, Inc.* v. *LG Elecs., Inc.*, 553 U.S. 617, 625 (2008) (*Quanta*); *Aro Mfg. Co.* v. *Convertible Top Replacement Co.*, 377 U.S. 476, 497 (1964) (*Aro*) (plurality opinion); *Boston Store* v. *American Graphophone Co.*, 246 U.S. 8, 25 (1918); *Motion Picture Patents Co.* v. *Universal Film Mfg. Co.*, 243 U.S. 502, 508-518 (1917); *Keeler* v. *Standard Folding Bed Co.*, 157 U.S. 659, 666 (1895); *Hobbie* v. *Jennison*, 149 U.S. 355, 361-363 (1893); *Adams* v. *Burke*, 84 U.S. (17 Wall.) 453, 456 (1873).

The lone exception to this Court's treatment of the exhaustion doctrine as a limit on the scope of the patent right was the short-lived decision in *Henry* v. *A.B. Dick Co.*, 224 U.S. 1 (1912), which was overruled just five years later by *Motion Picture Patents*, 243 U.S. at 518. In allowing a patentee to invoke patent law to enforce use restrictions following an authorized sale, the Court in *A.B. Dick* reasoned that the "right to sever ownership and use is deducible from the nature of a patent monopoly," so that "[t]he property right to a patented machine may pass to a purchaser with no right of use, or with only the right to use in a specified way, or at a specified place, or for a specified

purpose." 224 U.S. at 24-25. But the Court quickly reversed course in *Motion Picture Patents*, rejecting the principle "that, since the patentee may withhold his patent altogether from public use he must logically and necessarily be permitted to impose any conditions which he chooses upon any use which he may allow of it." 243 U.S. at 514. "The defect in th[at] thinking," the Court explained, was its "failure to distinguish between the rights which are given to the inventor by the patent law and which he may assert against all the world through an infringement proceeding and rights which he may create for himself by private contract." *Ibid.*

Under this Court's longstanding approach, so long as the initial sale of a patented article is authorized by the patentee, restrictions on post-sale use or resale of that article are not enforceable through an infringement suit because the initial sale "carrie[s] [the article] outside the monopoly of the patent law." *Motion Picture Patents*, 243 U.S. at 516. Since *A.B. Dick* was overruled, this Court has rejected every attempt to invoke patent law to control the use or resale of an article after the first authorized sale in the United States. See, *e.g.*, *Quanta*, 553 U.S. at 637; *Aro*, 377 U.S. at 497-500 (plurality opinion); *Univis*, 316 U.S. at 244, 249-252; *Boston Store*, 246 U.S. at 25; *Motion Picture Patents*, 243 U.S. at 506-507, 516. Under a straightforward application of those precedents, exhaustion principles foreclose respondent's reliance on the patent laws to enforce a single-use/no-resale restriction against downstream purchasers of the cartridges that respondent sold in this country.

2. The Federal Circuit's justifications for its contrary holding are not persuasive.

a. The court of appeals inferred that "a patentee may preserve its [35 U.S.C.] 271 rights when itself selling a patented article" because Section 271(a) states "that a sale or use of a patented article 'without authority' is an infringement." Pet. App. 40a. It is true that the Patent Act of 1952, 35 U.S.C. 1 *et seq.*, unlike the Copyright Act of 1976, 17 U.S.C. 101 *et seq.*, (see 17 U.S.C. 109(a)), does not codify any exhaustion rule, and thus contains no discrete provision that squarely forecloses the Federal Circuit's approach. This Court has long held, however, that although an initial sale of a patented article requires authorization from the patentee, Section 271(a) does not empower the patentee to assert patent rights in that article after a lawful first sale has occurred. See, *e.g.*, *Aro*, 377 U.S. at 497 (plurality opinion) (exhaustion doctrine "delimit[s] the scope of the patent grant"). The Federal Circuit was not at liberty to disregard this Court's holdings based on its own assessment of Section 271(a)'s most natural meaning.

b. The Federal Circuit suggested that, under this Court's decisions, exhaustion would preclude enforcement only of restrictions on post-sale use or resale that are otherwise unlawful, such as resale-price-maintenance conditions and tying arrangements. Pet. App. 28a-29a, 44a-56a. The logic and reasoning of those decisions, however, turned on the extent of the patent grant, not on the particular type of post-sale restriction at issue. See, *e.g.*, *Motion Picture Patents*, 243 U.S. at 514-516. And in decisions holding that the patentees' patent rights had been exhausted, the Court has sometimes reserved the question whether the pertinent restrictions could be enforced through a breach-of-contract action. See, *e.g.*, *Quanta*, 553 U.S.

at 637 n.7 ("[W]e express no opinion on whether contract damages might be available even though exhaustion operates to eliminate patent damages."). That approach would make no sense if exhaustion barred enforcement only of restrictions that are otherwise unlawful.

c. The Federal Circuit also misconstrued this Court's occasional references to "unconditional sales" as referring to sales unaccompanied by any restrictions on post-sale conduct. Pet. App. 42a; see *id.* at 38a-39a, 42a-43a. In *Mitchell* v. *Hawley*, 83 U.S. (16 Wall.) 544 (1873), for example, this Court observed that patent rights are exhausted when a patentee authorizes a sale "without any conditions." *Id.* at 547. In the parlance of the time, however, the term "conditional sale" referred not to a sale subject to restrictions on post-sale use that ran with the particular article in commerce, but rather to a sale in which title to the article did not pass to the buyer until the performance of a condition precedent. See, *e.g.*, *Harkness* v. *Russell*, 118 U.S. 663, 666 (1886) (describing a "conditional sale" as a "mere agreement to sell upon a condition to be performed," only after which title passes); see also Pet. App. 115a-116a (Dyk, J., dissenting) (explaining this distinction). Indeed, the Court in *Motion Picture Patents* described a sale that involved restrictions on downstream purchasers' use of the patented article, but that resulted in immediate passage of title, as an "unconditional sale." 243 U.S. at 515-516. This Court has repeatedly found patent rights exhausted, moreover, even when the patentee attempted to impose restrictions on post-sale use or resale. See, *e.g.*, *id.* at 515-519; *Univis*, 316 U.S. at 251.

d. The court of appeals further misinterpreted this Court's decisions by reading them to permit a patentee to enforce restrictions on post-sale use and resale so long as the authorized sale is made by a licensee rather than by the patentee itself. See, *e.g.*, Pet. App. 8a, 26a, 34a, 35a, 37a, 41a-46a, 62a-63a. Believing it to be "undisputed and clear under Supreme Court precedent" that respondent "would not have exhausted its patent rights" if its cartridges had been sold by an authorized licensee, the Federal Circuit reasoned that respondent should not have "less control" because it sold the cartridges itself. *Id.* at 26a.

The court of appeals was wrong, however, in reading this Court's precedents to hold that a patentee may reserve post-sale patent rights in particular articles by licensing another entity to sell those articles. Indeed, this Court has repeatedly held that authorized sales by licensees exhaust the patentee's patent rights. See, *e.g.*, *Quanta*, 553 U.S. at 636-637 (finding exhaustion where licensee sold with restrictions mandated by the patentee); *Univis*, 316 U.S. at 249 (observing that a sale "by the patentee or by his licensee" constitutes "a complete transfer of ownership" that exhausts the patentee's patent rights, notwithstanding use restrictions). In *Motion Picture Patents*, for example, the patentee authorized its licensee to sell the patented article, but required the licensee (as a condition of the license) to tell purchasers that the article could be used only in particular ways following the sale. 243 U.S. at 506-507. The licensee complied with the license terms and communicated the restriction to the purchaser. *Id.* at 507. The Court held that the authorized sale by the licensee exhausted the patentee's patent rights and so rendered the re-

striction unenforceable in a patent-infringement action against the buyer. *Id.* at 506-507, 515-518.

The court of appeals' error stemmed from its misreading of *General Talking Pictures Corp.* v. *Western Elec. Co.*, 305 U.S. 124 (1938). The patentee there had authorized its licensees to sell patented amplifiers only for non-commercial uses. *Id.* at 125-126. One licensee violated that condition by selling amplifiers for commercial use in theaters. *Id.* at 126. The Court held that, because the amplifiers were "sold outside the scope of the license the effect is precisely the same as if no license whatsoever had been granted," *id.* at 127, so that the sale itself made the licensee "guilty of an infringement," *id.* at 126.[1] The Court further held that, "as [the buyer of the amplifiers] knew the facts," it also was liable for infringement "because it ha[d] used the invention without license to do so." *Id.* at 127.[2]

The Federal Circuit understood *General Talking Pictures* to imply that, if respondent had authorized a licensee to make and sell its patented cartridges, and the licensee (pursuant to respondent's instruction) had imposed the single-use/no-resale restriction on buy-

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[1] Patentees may not use their power to restrict licensees in a manner that unlawfully restrains trade, see *United States* v. *Line Material Co.*, 333 U.S. 287, 304 (1948); but the Court in *General Talking Pictures* stated that the non-commercial-use restriction "was legal," 305 U.S. at 127.

[2] Although the Court appeared to attach significance to the buyer's knowledge that the licensee had no authority to sell for commercial use, it did not explain why that knowledge was legally relevant given that patent infringement is a strict-liability tort. Because the buyer knew that the sale was unauthorized, the Court had no occasion to consider whether a purchaser who lacked such knowledge would also be liable for infringement.

ers, that restriction would have been enforceable under the patent laws against the buyers and any subsequent repurchasers. See Pet. App. 44a-45a. The court concluded on that basis that, if respondent's own sales exhausted its patent rights, "[n]on-practicing-entities would have greater power to maintain their patent rights than practicing entities." *Id.* at 45a. That is incorrect.

General Talking Pictures reflects the principle that a sale made by a licensee in violation of the license terms is not an *authorized* sale that can trigger patent exhaustion. That decision would be on point if respondent had instructed a licensee to impose the single-use/no-resale restriction as a contract term with buyers, and the licensee had instead sold the cartridges under contracts that allowed resale or multiple uses. In that circumstance the licensee would be liable under Section 271(a) for selling the cartridges without authority from the patentee, and the buyer also could be liable for infringement if it resold or reused the cartridges. See 305 U.S. at 127; see also p. 12 & note 2, *supra*.

General Talking Pictures does not suggest that, if the hypothetical licensee *obeyed* respondent's directive and placed the single-use/no-resale restriction in its sales contracts, a buyer (or subsequent repurchaser) who violated that restriction could be liable for patent infringement. To the contrary, this Court's precedents make clear that respondent's patent rights would be exhausted in that situation. See pp. 11-12, *supra*. The difference in outcomes between the two scenarios turns on the fact that the latter, but not the former, involves an initial *authorized* sale. The Federal Circuit was therefore wrong in concluding that, if

respondent's own sales trigger exhaustion, respondent would be disadvantaged vis-à-vis patentees who sell through licensees.

B. The question whether patentees can avoid the exhaustion doctrine by agreement or unilateral notice is important. This Court long ago recognized that "[t]he inconvenience and annoyance to the public" if patent rights are not exhausted by the first authorized sale are "too obvious to require illustration." *Keeler*, 157 U.S. at 667. Under the Federal Circuit's reasoning, a patentee could demand royalties for the use or resale of articles embodying its invention at multiple downstream points in the channels of commerce, long after the first authorized sale in the United States. That result would threaten the viability of second-hand markets in patented goods at substantial cost to the public interest, with no reason to think the ensuing wealth transfer to the patentee would promote the purposes that the Patent Clause is intended to serve. See U.S. Const. Art. I, § 8, Cl. 8.

The parties agree that respondent sold, rather than leased, the cartridges, Pet. App. 11a n.1; that respondent clearly communicated the single-use/no-resale restriction, *id.* at 11a; that the restriction does not "give[] rise to a patent-misuse defense, constitute[] an antitrust violation, or exceed[] the scope of the Patent Act[]," but rather is an "express and enforceable contractual agreement" with purchasers, *id.* at 11a, 14a (citation omitted); that "both the first purchaser and [petitioner] as a re-purchaser had adequate notice of the single-use/no-resale restriction," *id.* at 14a; and that steps taken to prepare the spent cartridges for resale do not "result in new articles, which would be outside the scope of the exhaustion

doctrine," *id.* at 12a n.2. This case accordingly provides a suitable vehicle for the Court to consider, and correct, the Federal Circuit's erroneous limitation on the scope of patent exhaustion following an authorized first sale in the United States.

II. THIS COURT SHOULD REVIEW THE FEDERAL CIRCUIT'S HOLDING THAT FOREIGN SALES NEVER TRIGGER EXHAUSTION OF U.S. PATENT RIGHTS

Petitioner challenges (Pet. 23-34) the Federal Circuit's separate holding that a foreign sale authorized by the U.S. patentee, either under a foreign patent or otherwise in accordance with foreign law, never exhausts the U.S. patent rights in that article. Because the question of international patent exhaustion presented here is an important one that this Court has not previously considered, and because the court of appeals decided that question incorrectly, the Court should grant review of the second question presented as well.

A. The court of appeals correctly rejected petitioner's proposed rule of automatic international patent exhaustion. The court erred, however, by declining to adopt the rule of *presumptive* international exhaustion long recognized in lower-court decisions, under which U.S. patent rights are exhausted unless they are expressly reserved as part of a foreign sale.

1. The international legal regime governing the protection of inventions is defined by the independence of each nation's patent system. The United States has ratified the Paris Convention for the Protection of Industrial Property, Mar. 20 1883, Art. 4, 25 Stat. 1375-1376, which provides in Article 4*bis* that "[p]atents applied for in the different contracting States * * * shall be independent of the patents

obtained for the same invention in the other States." Additional Act Modifying the Paris Convention for the Protection of Industrial Property, Aug. 25, 1902, Art. I, para. III, 32 Stat. 1940. U.S. patent law "do[es] not, and w[as] not intended to, operate[] beyond the limits of the United States," and the Court has "correspondingly reject[ed] the claims of others to such control over our markets." *Microsoft Corp.* v. *AT&T Corp.*, 550 U.S. 437, 444 (2007) (citation and internal quotation marks omitted).

Because patent laws are quintessentially territorial, no authority under a U.S. patent is required to sell a patented article abroad. See *Deepsouth Packing Co.* v. *Laitram Corp.*, 406 U.S. 518, 527 (1972). If an "inventor needs protection in [foreign] markets," Congress "intend[ed] to have him seek it abroad through patents secured in countries where his goods are being used." *Id.* at 531; see *Microsoft*, 550 U.S. at 456 (remedy for a U.S. patentee who "desires to prevent copying in foreign countries * * * lies in obtaining and enforcing foreign patents"). International agreements enhance U.S. patentees' ability to seek patent protection in other countries (and vice versa), but those agreements do not provide for reciprocal patent rights, and different countries' laws vary in their protections for particular inventions. See Pet. App. 75a-81a. Those differences reflect "different policy judgments about the relative rights of inventors, competitors, and the public in patented inventions." *Microsoft*, 550 U.S. at 455 (citation and internal quotation marks omitted).

2. Because a foreign sale by a U.S. patentee does not implicate or require any authority under the U.S. patent, such a sale should not automatically exhaust

U.S. patent rights in that article. Instead, a rule of presumptive exhaustion should apply, permitting a patentee to reserve his U.S. rights as part of a foreign sale if he does so expressly.[3]

a. In *Boesch* v. *Graff*, 133 U.S. 697 (1890), this Court held that U.S. patent rights were not exhausted by a foreign sale that was permissible under the foreign country's laws but had occurred without the involvement or authorization of the U.S. patentee. See *id.* at 702-703. In *Boesch*, German law gave a seller who did not own the U.S. or German patent the right to make and sell the product in Germany because he had begun manufacturing it before the application for a German patent was filed. *Id.* at 701. The Court concluded that the lawful foreign sale of a particular article did not exhaust U.S. patent rights in the article because "[t]he sale of articles in the United States under a United States patent cannot be controlled by foreign laws." *Ibid.*

Boesch shows that a lawful foreign sale of a particular article will not *always* exhaust U.S. patent rights in that article. In *Boesch*, however, the German law that legitimized the foreign sale—*i.e.*, the rule that a person who had manufactured a product before a patent application was filed could continue to do so after the application was granted—had no analog in U.S. patent law. The Court held that, although German law controlled the question whether the initial sale was lawful, the propriety of resale in the United States was controlled by U.S. law. But the Court had no occasion to decide whether, or under what circum-

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[3] In light of this Court's domestic-exhaustion decisions, however, a patentee can only reserve his U.S. rights in full; he cannot divide the U.S. rights and retain some but not all.

stances, a foreign sale that is made or authorized by the U.S. patent holder (and thus would be lawful if it occurred in the United States) will exhaust U.S. patent rights.

b. U.S. courts have long permitted U.S. patentees to reserve their U.S. rights when making or authorizing foreign sales. See, *e.g.*, *Dickerson* v. *Matheson*, 57 F. 524, 527 (2d Cir. 1893); *Dickerson* v. *Tinling*, 84 F. 192, 194 (8th Cir. 1897); *Griffin* v. *Keystone Mushroom Farm, Inc.*, 453 F. Supp. 1283, 1284-1285 (E.D. Pa. 1978). U.S. courts have also held, however, that an *unrestricted* sale abroad by the U.S. patentee will exhaust the patentee's right to control importation of the particular article into the United States and its subsequent resale or use within this country. See *Curtiss Aeroplane & Motor Corp.* v. *United Aircraft Eng'g Corp.*, 266 F. 71, 77 (2d Cir. 1920); *Sanofi, S.A.* v. *Med-Tech Veterinarian Prods., Inc.*, 565 F. Supp. 931, 938 (D.N.J. 1983); *Holiday* v. *Mattheson*, 24 F. 185, 185 (C.C.S.D.N.Y. 1885). Applying the presumption that when an owner "sells an article without any reservation" he "intends to part with all his rights in the thing sold," courts coalesced around the rule that a U.S. patentee who authorizes a foreign sale must expressly reserve his discrete U.S. patent rights in the patented article if he wishes to preserve them. *Holiday*, 24 F. at 185. The decisions accordingly reflect a rule of presumptive, but not automatic, international patent exhaustion.

c. Although U.S. patent laws do not directly address the issue of international patent exhaustion, Congress has enacted legislation predicated on the assumption that those laws permit U.S. patentees to authorize sales abroad without exhausting their U.S.

patent rights if they expressly reserve those rights at the time of sale. In 2003, Congress enacted laws approving free trade agreements that commit the United States to preserve "the exclusive right of the patent owner to prevent importation of a patented product" notwithstanding a foreign sale of that product, at least where the patentee "has placed restrictions on importation by contract or other means." United States-Australia Free Trade Agreement Implementation Act, Pub. L. No. 108-286, 118 Stat. 919 (Art. 17.9.4 of implemented agreement); United States-Morocco Free Trade Agreement Implementation Act, Pub. L. No. 108-302, 118 Stat. 1103 (Art. 15.9.4 of implemented agreement); see also Pet. App. 87a-88a & nn.22-23 (quoting relevant provisions).

Congress subsequently has enacted appropriations riders barring the inclusion of similar provisions in future trade agreements, apparently to allow further consideration of issues specific to particular product markets. *E.g.*, Act of Nov. 22, 2005, Pub. L. No. 109-108, § 631, 119 Stat. 2344; see *Transcript, Fiscal Year 2006 Defense Appropriations and the Fiscal Year 2006 Science, State and Justice Appropriations Bills: Hearing Before the House Comm. on Appropriations*, 109th Cong., 2005 WL 1350973 (June 7, 2005). But Congress has left intact the statutes approving the prior free trade agreements and has not altered U.S. law relating to international exhaustion.

The United States is therefore committed, in free trade agreements approved by legislation enacted by both Houses of Congress and signed by the President, to permit the express reservation of U.S. patent rights notwithstanding authorized foreign sales of patented articles. Those laws reflect Congress's understanding

that exhaustion principles do not preclude enforcement of such reservations of rights, and they provide a further reason to construe the patent laws in a manner consistent with that understanding. Cf. *Vimar Seguros y Reaseguros, S.A.* v. *M/V Sky Reefer*, 515 U.S. 528, 539 (1995) ("[C]ourts should be most cautious before interpreting * * * domestic legislation in such manner as to violate international agreements.").

d. Although the Federal Circuit correctly recognized that foreign sales do not *automatically* exhaust U.S. patent rights, the court erred in reaffirming *Jazz Photo*'s rule that foreign sales can *never* have that effect. Pet. App. 101a-103a. While no authority under U.S. law is required to consummate a foreign sale, nothing in the nature of a foreign sale logically precludes a U.S. patentee from conveying his U.S. rights as part of the foreign transaction. The patentee can determine whether the terms of the sale adequately reward him for his separate rights under U.S. and foreign law. See *id.* at 133a-134a (Dyk, J., dissenting) (observing that "significant differences" in the patent laws of different countries may mean that a U.S. patentee has not been "fully compensated" if a foreign sale automatically exhausts his U.S. rights). A rule of presumptive exhaustion appropriately balances "the interests of the rights holder and the unsuspecting buyer" by "put[ting] the burden on the U.S. rights holder to provide notice of a reservation of U.S. rights to the purchaser." *Id.* at 134a. That "uniform approach" to exhaustion, "existing well before the 1952 Patent Act and continuing thereafter, strongly supports" interpreting the patent laws to embody a rule of presumptive international exhaustion. *Id.* at 129a.

3. Petitioner contends (Pet. 24) that this Court's decision in *Kirtsaeng* v. *John Wiley & Sons, Inc.*, 133 S. Ct. 1351 (2013), which held that a U.S. copyright holder's U.S. rights were automatically exhausted by its sale of copyrighted books abroad, compels an analogous rule of automatic international exhaustion in the patent context. That is incorrect.

The Court in *Kirtsaeng* held that 17 U.S.C. 109(a), which permits owners of copies "lawfully made under this title" to sell or dispose of those copies without the copyright owner's permission, applies to copies "lawfully made abroad." 133 S. Ct. at 1356. In reaching that conclusion, the Court rejected the argument that Section 109(a) referred only to copies made in the United States. *Id.* at 1358-1362. The Court concluded that the proposed geographic limitation would exempt foreign-made copies from the first-sale doctrine entirely and so yield the "absurd result that the copyright owner c[ould] exercise downstream control even when it authorized the import or first sale" in the United States. *Id.* at 1366; see *id.* at 1373 (Kagan, J., concurring).

Kirtsaeng's reasoning does not carry over to the patent context. Patent and copyright law "are not identical twins." *Sony Corp. of Am.* v. *Universal City Studios, Inc.*, 464 U.S. 417, 439 n.19 (1984). The Court has accordingly exercised "caution * * * in applying doctrine formulated in one area to the other," *ibid.*, including in cases involving exhaustion, see *Bobbs-Merrill Co.* v. *Straus*, 210 U.S. 339, 345-346 (1908). That caution is particularly warranted here. Because the Patent Act contains no analog to 17 U.S.C. 109(a), the *Kirtsaeng* Court's analysis of the text, context, and history of that provision does not illuminate the

proper international-patent-exhaustion rule. Nor is there any risk that a patentee would enjoy perpetual control over patented goods absent automatic international exhaustion. Even if a patentee withholds its U.S. rights in authorizing a foreign sale, its subsequent authorization of a sale in the United States would fully exhaust those rights under the domestic exhaustion rule that has prevailed for more than 150 years.

As petitioner emphasizes (Pet. 24-27), the *Kirtsaeng* Court found additional support for its interpretation of Section 109(a) in the "common law's refusal to permit restraints on the alienation of chattels," which "makes no geographical distinctions." 133 S. Ct. at 1363. But that common-law doctrine was significant because the Court could identify "no language, context, purpose, or history that would rebut" it, whether in Congress's codification of the doctrine or in prior decisions discussing copyright exhaustion. *Id.* at 1364. In the patent context, by contrast, *Boesch* demonstrates that sales lawfully made in a foreign country do not automatically trigger exhaustion; lower courts have consistently upheld express reservations of U.S. patent rights accompanying foreign sales; and Congress has enacted legislation that assumes that understanding of U.S. law. Petitioner is therefore wrong to contend (Pet. 24) that *Kirtsaeng* "resolves th[e] question" presented here.

B. This Court's review is warranted. In light of the increasingly transnational nature of global commerce, the question whether and under what circumstances a patentee retains U.S. patent rights when authorizing a foreign sale is important, as the many amicus briefs addressing the issue demonstrate. Because the Fed-

eral Circuit has exclusive appellate jurisdiction in cases arising under the patent laws, 28 U.S.C. 1295(a)(1), the decision below will establish the nationwide rule absent this Court's intervention.

Petitioner's resale in the United States of patented cartridges first sold by respondent in foreign countries, in a case where the patent holder did not expressly reserve its U.S. patent rights but the alleged infringer did not raise an implied-license defense, see Pet. App. 63a, provides a clean vehicle for the Court to determine the correct international-patent-exhaustion rule. And if the Court grants review on the first question presented, it would be particularly appropriate to decide the second as well, so that the regulated community and the lower courts are not left to speculate about the implications for international patent exhaustion of the Court's domestic-exhaustion analysis.

CONCLUSION

The petition for a writ of certiorari should be granted.

Respectfully submitted.

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